Sample Test for Financial Accounting

Multiple Choice
Identify the letter of the choice that best completes the statement or answers the question.

____ 1. In the annual report, where would a financial statement reader find out if the company’s financial statements give a fair depiction of its financial position and operating results?
   a. Notes to the financial statements
   b. Management discussion and analysis section
   c. Balance sheet
   d. Auditor’s report
   e. None of the options listed

____ 2. Which accounting assumption assumes that an enterprise will continue in operation long enough to carry out its existing objectives and commitments?
   a. Monetary unit assumption
   b. Economic entity assumption
   c. Time period assumption
   d. Going concern assumption
   e. None of the options listed

Johnny’s Car Repair Shop started the year with total assets of $60,000 and total liabilities of $40,000. During the year the business recorded $100,000 in car repair revenues, $55,000 in expenses, and dividends of $10,000.

____ 3. The net income reported by Johnny’s Car Repair Shop for the year was
   a. $35,000.
   b. $45,000.
   c. $20,000.
   d. $90,000.
   e. none of the options listed

____ 4. The purchase of an office building by issuing long-term notes payable should be reported as a
   a. cash outflow in the financing section of the statement of cash flows.
   b. cash outflow in the investing section of the statement of cash flows.
   c. cash outflow in the operating section of the statement of cash flows.
   d. noncash investing and financing activity.
   e. none of the options listed

____ 5. If beginning capital was $25,000, ending capital is $37,000, and the owner's withdrawals were $23,000, the amount of net income or net loss for the period was:
   a. net loss of $35,000
   b. net income of $35,000
   c. net income of $14,000
   d. net loss of $14,000
   e. none of the options listed

____ 6. The deferred income tax liability:
   a. Represents income tax payments that are deferred until future years because of temporary differences between GAAP rules and tax accounting rules.
   b. Is a contingent liability.
c. Can result in a deferred income tax asset.
d. Is never recorded.
e. Is recorded whether or not the difference between taxable income and financial accounting income is permanent or temporary.

7. A company normally sells its products for $20 per unit, which includes a profit margin of 25%. However, the selling price has fallen to $15 per unit. This company's current inventory consists of 200 units purchased at $16 per unit. Replacement cost has now fallen to $13 per unit. Calculate the value of inventory at the lower of cost or market.
   a. $2,550.
   b. $2,600.
   c. $2,700.
   d. $3,000.
   e. $3,200.

8. A measure of profitability is the
   a. current ratio.
   b. debt to total assets ratio.
   c. return on assets ratio.
   d. working capital.
   e. none of the options listed

9. Working capital is a measure of
   a. consistency.
   b. liquidity.
   c. profitability.
   d. solvency.
   e. none of the options listed

10. The difference between the balance of a plant asset account and the related accumulated depreciation account is termed
    a. market value.
    b. contra asset.
    c. book value.
    d. liability.
    e. none of the options listed

11. A company purchased a POS cash register on January 1 for $5,400. This register has a useful life of 10 years and a salvage value of $400. What would be the depreciation expense for the second-year of its useful life using the double-declining-balance method?
    a. $500.
    b. $800.
    c. $864.
    d. $1,000.
    e. $1,080.

12. Which of the following is not an activity listed in the statement of cash flows?
    a. Investing Activities
    b. Funding Activities
    c. Operating Activities
    d. Financing Activities
    e. None of the options listed
13. Net present value is negative when
   a. the present value of cash inflows is greater than the present value of cash outflows.
   b. the present value of cash outflows is greater than the present value of cash inflows.
   c. the future value of cash inflows is greater than the present value of cash outflows.
   d. the present value of cash outflows is greater than the future value of cash outflows.
   e. none of the options listed

14. Which of the following is an example of a deferral?
   a. Accruing year-end wages
   b. Recognizing revenues earned but not yet recorded
   c. Recording prepaid rent
   d. Recognizing expenses incurred but not yet recorded
   e. None of the options listed

15. A company began the accounting period with $50,000 in owner’s capital, ended with $75,000 in owner’s capital, and the owner withdrew $30,000 during the period for personal use. What was the company’s net income or loss for the period?
   a. $55,000 net income
   b. $30,000 net loss
   c. $5,000 net loss
   d. $5,000 net income
   e. none of the options listed

16. Deciding whether to record a sale when the order for services is received or when the services are performed is an example of a
   a. classification issue.
   b. valuation issue.
   c. recognition issue.
   d. communication issue.
   e. none of the options listed
Sample Test for Financial Accounting
Answer Section

MULTIPLE CHOICE

1. ANS: D
2. ANS: D
3. ANS: B
4. ANS: D
5. ANS: B
6. ANS: A
7. ANS: B
8. ANS: C
9. ANS: B
10. ANS: C
11. ANS: C
12. ANS: B
13. ANS: B
14. ANS: C
15. ANS: A
16. ANS: C